NTC®

Pennies to Paychecks

LEARNING ABOUT EARNING

Office of the Montana State Auditor
CSI
Commissioner of Securities & Insurance

Pennies to Paychecks

LEARNING ABOUT EARNING

- WAGES MINUS DEDUCTIONS EQUALS TAKE-HOME PAY
- SAVING AND INVESTING HAVE DIFFERENT LEVELS OF RISK
- THE DIFFERENCE BETWEEN CREDIT AND DEBIT CARDS
- THE IMPORTANCE OF FORMING A SAVINGS HABIT

VOCABULARY

Balance: The amount you owe on a loan.

Bonds or Savings Bonds: Loans to the government or to a corporation.

Credit Card: A card that allows you to borrow money from a company on the promise that you will pay them back.

Debit Card: A card that allows you to withdraw money directly out of a bank account.

Deductions: Money taken out of your paycheck by your employer.

Gross Pay: The amount you make at a job before deductions have been taken out.

Interest Rate: The percentage of a sum of money charged for its use.

Investing: A long-term plan for earning income through stocks, bonds and mutual funds.

Liquid Assets: Money that can be made available for use.

Mutual Fund: A type of investment where you pool your money with other people and split any profits or losses.

Overdraft: When you spend more money than you have in your bank account.

Risk: The possibility of something bad happening to your money.

Salary: The amount of money you make at a job. Salary is usually calculated monthly or yearly. *See also, Wages*.

Savings Account: Money placed in a bank or credit union.

Stock: An investment representing ownership interest in a specific company.

Take-Home Pay: The amount you make at a job after deductions have been taken out. Also called Net Pay.

Taxes: Money given to the government to pay for things like schools, roads and bridges.

Wages: The amount of money you make at a job. Wages are usually calculated hourly. *See also, Salary.*

WAGES MINUS DEDUCTIONS

WHEN IS $20 NOT $20? When it's on your paycheck. When you get a job out in the real world, be aware that you'll be taking home less money than you think. Employers will take deductions out of your paycheck. Don't take it personally. It's not your fault. They do it to everyone whether they're the president of a billion-dollar company or they're making minimum wage at the burger joint down the street. Everyone has deductions taken out of their paycheck.

WAGES (OR SALARY) are the money that you earn. The total amount that you make is called your ***Gross Pay*** (and no, we don't mean gross, as in, "My little brother ate a worm. That is so gross!") Here, gross means "a larger amount". After the deductions are taken out, you're left with your ***Take-Home Pay***, also called ***Net Pay*** or ***Net Income***.

SO WHAT ARE THESE DEDUCTIONS? The largest amount taken out of your gross pay goes to taxes. Since 1913, the federal government has been collecting ***Income Taxes***. Most states and some cities also collect their own taxes. Basically, taxes are how we pay for the things we all use as a society; things like libraries, roads, bridges and schools, as well as the salaries of police officers, firefighters and members of the military, among many others.

IN ADDITION TO STATE AND FEDERAL TAXES, most employers also make deductions to pay for Medicare and Social Security. These are terms which are thrown around a lot in political circles these days, but just what are they? Both Medicare and Social Security are a way we all do our part to help the poor and elderly. The money that is deducted from your paycheck goes into a general account. Medicare pays for medical coverage and Social Security helps defray the cost of living for people over a certain age (usually 66 years old).

WHY IS THIS IMPORTANT? Like we said at the beginning, in this case, $20 is not $20. If you're making $20 at your job, you'll actually be taking home less than that. Good information to know if you're saving for that new car, cell phone, vacation, etc.

EQUALS TAKE-HOME PAY

WAIT A MINUTE...

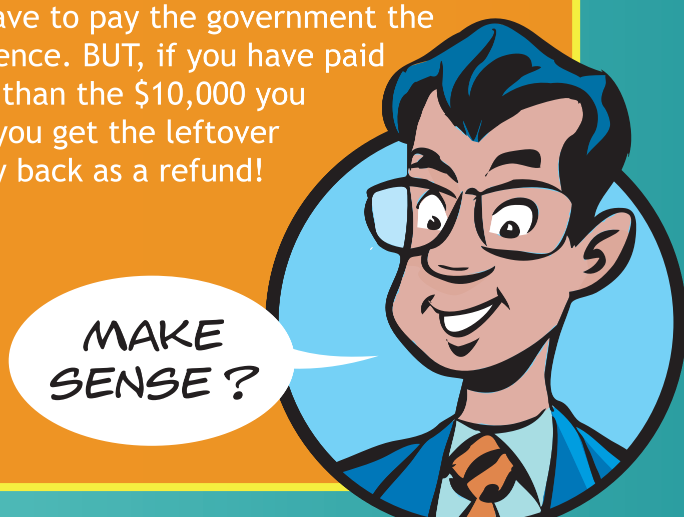
They're not that different. In fact, they're the exact same thing. Let's take it step by step:

1. In order to make sure everyone pays their fair share, the government decides how much people should owe. For example, let's just make up a number and say that if you earn $50,000 per year, you have to pay $10,000 in taxes.

2. Throughout the year, your employer will take small amounts out of each of your paychecks.

3. In April, you file a tax return that explains how much of that $10,000 you have paid over the year.

4. If you've paid less than your $10,000, you have to pay the government the difference. BUT, if you have paid MORE than the $10,000 you owe, you get the leftover money back as a refund!



TAX FACTS

Using the internet or your school library, list as many things as you can find that the government spends tax dollars on.

Share them with the class, writing all the answers on the board.

DISCUSSION QUESTIONS

1. Looking at the list the class has prepared, which do you think are the most important? Which are the least?

2. Pick one of the answers at random. What would happen if the government stopped paying for this one item? Whose lives would be affected? What is not on this list that you WISH the government would pay for?

3. Does this change your answer for Question 1?

TAKE ACTION!

Find the office address of the Congressional members for your state. Tell them your thoughts on what you've learned today. Ask them to keep funding the things you think are important!

SAVING AND INVESTING HAVE

IF SOMEONE offered to pay you $10 to get bitten by a rattlesnake, would you do it? Probably not. Why? Because the risk of dying is greater than the reward of $10. What if they offered you the same $10 to eat an ice cream cone? Most of us would jump at the chance. Here, the reward is far greater than the risk of something going wrong.

You have choices to make with your money every day. And these choices can be looked at in these same terms of risk versus reward. When it comes to your money, the choices aren't always as clear as rattlesnakes and ice cream. So you have to look at the different levels of risk and ask yourself one question: Is it worth it? Is the reward worth the risk it will take to get there?

Let's look at some options.

SAVINGS ACCOUNTS

The easiest thing to do with your money is to throw it in a jar or a piggy bank or stuff it under your mattress. There is little to no risk of anything happening to it (except maybe your little brother finds your cash). Also, the money is ***Liquid***. That means it's available whenever you need it. However, it won't be earning you any additional money. What you put in is what you get out.

Putting your money in a ***Savings Account*** at a bank or credit union is a better option. Here, there is still little to no risk. Your money will be there when you need it. AND – it will earn ***Interest***. That means the bank or credit union will actually pay you to keep your money in their vault.

They don't pay you a lot, mind you, but it's more than you get from your mattress, that's for sure.

MY FAVORITE STOCKS

Pick a few companies that make or sell something you like: a computer, a pair of jeans, your favorite fast food company. Anything. Use the internet to find their stock market symbol, then follow them every day for a week and record how much their values rise or drop each day. Share with the class the companies you chose. Write on the board the total change for each company.

Then compare with the class.

NAME OF COMPANY	SYMBOL	MONDAY

DIFFERENT LEVELS OF RISK

BONDS

Bonds are a form of ***Investing***. They work a little differently than a savings account. When you buy a bond, you loan money to a corporation (or the government in the case of savings bonds) in exchange for a higher interest rate. However – you're not allowed to cash in that bond until it matures. Every savings bond has a term, or a time limit. The term could be as little as 6 months or as long as 10 or 20 years. Think of it like the timer on your microwave. The bond needs to cook (or mature) for that entire term before you can take it out and cash in on your investment. So you're taking a risk by saying you won't need the money while it is maturing. The benefit to savings bonds is that they generally offer more interest than savings accounts. And, the longer the term, the more interest it pays out when it matures.

THE STOCK MARKET

A ***Stock*** is an ownership interest in a company. Most companies that make the things you use every day allow regular people to buy shares of their company. There are a couple of ways to make money by owning stocks. If the company does well, they share the profits with the people who own their stock. Additionally, the price of a stock depends on how valuable other people think it is. That's why the prices go up and down every day. Professionals assign it a price based on factors such as how many people want the stock, or whether the company is making the news (for good reasons or bad).

So if you buy a stock now for $100, and the value increases to $200, you can sell it for a profit and keep the difference. But be warned – if the company doesn't do well, and the value goes down to $50, or $20 or even $1, you could lose what you've invested. Stocks can be risky because their value is based on how well the company does, and what other people think of it. But if you do your research, you can make smart decisions and earn big bucks.

MUTUAL FUNDS

With ***Mutual Funds***, you leave the decisions to somebody else. When you buy a mutual fund, you put your money into a pool with several other people. A professional fund manager will take that money and invest it by making all of the decisions for you. If the fund manager knows what he or she is doing, they can make you money in no time. But is that reward worth the risk of letting someone else handle your hard-earned cash?

So which of these is the best? That's up to you. How soon will you need your money? How much risk are you willing to live with? The experts all agree on one thing: diversify. Don't put all of your money into any one area. Try some of this, with a little of that. That way, if one of them falls short, you won't lose everything you own.

TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	TOTAL CHANGE SINCE MONDAY

DISCUSSION QUESTIONS

1. Did the prices change much in a week?
2. Which type of companies did the best?
3. Do you notice a trend? In other words, did most of them go the same direction?

THE DIFFERENCE BETWEEN CREDIT AND DEBIT CARDS

So you've had your eye on that new cell phone for a while now. Today is finally the day you're going to buy it. So you waltz down to the store, crack open your wallet and uh oh. No cash. "No problem," you think, "I'll just put it on the plastic." So you hand over your card. But what kind of card is it exactly? A credit card or a debit card? "Doesn't matter." you think. "They're the same thing." Stop right there!

They're not the same thing, and knowing the difference between them could save you hundreds of dollars in the long run.

A ***Debit Card***, (sometimes called a check card or bank card) is given to you by your bank and is directly tied to your savings or checking account. When you use the card, money is taken directly out of your account back at the bank or credit union. If you don't have enough money in your account, your card could be declined, or worse – the bank could charge you fees or fines for ***Overdrafting*** your account.

A ***Credit Card*** is different. When you buy something with a credit card, the purchase is paid for by the credit card company. Then at the end of the month, they send you a bill to pay them back for all the things they bought for you. From here you have two options:

1. You can pay the full amount and be on your way.
2. If you don't have enough, you can pay as much as you can afford as long as it is equal to or greater than the minimum amount due.

But be warned – if you take Option 2, they will charge you interest on the unpaid amount. And that interest can be pretty high. The ***Interest Rate*** is the percentage of the unpaid balance that is added to the amount you owe. But that rate can go up or down, depending on how well you pay off your bills. The higher the interest rate, the more money you have to pay the credit card company on the unpaid balance.

Let's use our cell phone example. Say the phone is on sale for $200 and you buy it with your credit card. When you get your bill at the end of the month, you owe the credit card company $200. If you pay it all off at once, you're done, and the phone cost you $200.

FUN FACT

If you only make the minimum payments on a $1,000 purchase at 18% it will take 22 years to pay off and cost over $4,000

But what if you only have $100 available to pay?

The unpaid $100 gets carried over to the next month's bill. Let's assume that the interest rate is 18%. This means you'll owe an additional $1.50 on top of the $100. Which means next month you'll owe them $101.50. If you don't pay anything the following month, your balance of $101.50 will be charged with another 18% interest and you'll owe around $103.02. This may not sound like much, but it can add up quickly! Plus they'll charge you late fees for not paying last month's bill. And that's just for this one phone. Now think of what happens when you buy books and burgers and online downloads with that same card! You can see how this can spiral out of control.

So the bottom line is – Only borrow what you can pay back tomorrow. Using debit and credit cards wisely and responsibly is something that banks and credit unions look at when you open an account, or when you apply for a college loan. Get into those good habits now.

DECISIONS DECISIONS . . .

So what are the advantages and disadvantages of using each type of card?

DEBIT CARD

- + Money is taken out of your account immediately
- − If you overdraft, you could be penalized
- + No bills at the end of the month
- + No interest on purchases

CREDIT CARD

- + Allows you to buy things you normally couldn't afford
- − Could be more expensive than paying by debit card or cash
- − You pay interest on what you don't pay back right away
- − Can spiral out of control

IMPROVE YOUR IMPROV

The actors in *Pennies to Paychecks* used a style of performance called improvisation (or improv, for short). That means they took your suggestions and made up their lines on the spot. You can do it too. All it takes is an open mind and the willingness to say whatever comes into your head.

For example, on a piece of paper, write down what you had for dinner last night.

Got it? Good. Now add the word "Man" or "Woman" after it and you've just invented a new superhero. Now go from there. What are the powers of Pizza Man? Who is the arch enemy of Spaghetti Woman? There are no right or wrong answers. Be as silly and crazy as you like. In fact, the crazier the better.

Now get together with a classmate and share your new creations. Look them over and decide who would be the superhero and who is more likely to be the arch nemesis villain? What kind of evil scheme would the villain be likely to pull off? How would the superhero stop him or her? Together, write a short scene using these silly ideas and perform them for the class.

THE IMPORTANCE OF

ARE YOU ONE OF THOSE PEOPLE that never seems to have enough money? Where it seems like every time you get some cash in your pocket, it's gone before you know it? Well worry not! There is a simple habit you can get into to solve this problem. Simply "Pay Yourself First". Paying yourself first doesn't mean wait until Grandma gives you $100 for your birthday and you leave it in the bank until you're ready to buy a car. No, it simply means that at the end of the day, empty your pocket change into a jar. It means, when a friend pays you back the $5 you loaned her, put it in the bank. Better yet – make it a habit to save some money EVERY time you get some in your hand. By the time it becomes a habit, you'll be saving like nobody's business.

Soon you'll be able to afford all the cool stuff you've been dreaming about, rather than scrounging for loose change just to buy a burger after school.

FUN FACT!

According to a recent survey, teens spend the most money on:

1. Immediate needs
   (fast food, music, clothes, etc.)
2. Cars
3. Saving for college
4. Helping their family

(Okay, this really isn't a fun fact. But try reading it in a funny voice.)

FORMING A SAVINGS HABIT

Or if you really want to get in a good habit, start investing some of that loose change early.

When you invest, time is your best friend. The longer something stays invested, the more it grows. So use your young age to your advantage. Invest now, and reap the benefits later!

Your future self will thank you for it.

These small amounts of change that you hide away may seem small and worthless now, but once you get that ball rolling, you'll be in the habit of saving, and that money will grow and grow. Think of it this way – If you save $5 a week, every week starting at the beginning of the school year, by June, you'll have about 200 bucks saved up. And that doesn't even count ***Interest***, which is money that the bank or credit union pays you to keep your money there.

HABIT FORMING

To get into the habit of paying yourself first, start by saving 10% of everything you earn. That means if you make 10 bucks, save $1. If you make $25, save $2.50. Get it?

Help this teen get into the habit by figuring out how much she should pay herself first, and then determine how much she saves.

HOW I EARNED THE MONEY	AMOUNT I EARNED		I PAID MYSELF FIRST	HOW MUCH I SAVED UP SO FAR
Walked the neighbor's dog	$10.00	x.10	$1.00	$1.00
Mowed the lawn	$12.00	x.10	$1.20	$2.20
Worked at part-time job	$145.60	x.10		
Sold video games	$65.20	x.10		
Birthday money from Aunt Rose	$20.00	x.10		
Cut cousin's hair	$15.00	x.10		
Allowance	$30.00	x.10		

DON'T BREAK YOUR BANK

Saving and investing are an important part of planning for your future.

CONTINUE YOUR FINANCIAL EDUCATION ONLINE.
GO TO:

- www.channelone.com/generation-money
- www.treasurydirect.gov/kids/kids.htm
- www.bizkids.com
- www.khanacademy.org

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